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SUBJECT: VIETNAM NOT RUSHING TRADE DEALS

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11. (U) This cable is Sensitive But Unclassified. For official use only, not for dissemination outside USG channels or posting on the internet.

12. (SBU) Summary: Vietnam has ongoing trade and investment multilateral and bilateral negotiations with Australia and New Zealand, the EU, Chile, Japan and Canada. Aside from the first one, which has been in process longest, all others appear to be moving slowly. Vietnam is taking a cautious approach, and many Government (GVN) officials tell us that implementing its existing commitments and pipelined investment well takes precedence over securing new trade or investment deals. End summary.

JAPAN AND VIETNAM EPA: REACHING A DEAD END  
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13. (SBU) Japan and Vietnam announced negotiations on a free trade "Economic Partnership Agreement" (EPA) in October 2006, and held the first round in January 2007 amid high hopes for a quick conclusion. Eight formal rounds and countless other informal discussions later, the parties are nowhere near closing. The sticking points, our colleagues on both sides tell us, are access to Japan's market for Vietnamese agricultural products and labor. Vietnam is declining to budge on either. Officials from the Japanese Embassy in Hanoi tell us that the impasse is now "political" and that a breakthrough will require "a political decision from Tokyo."

14. (U) Bilateral trade between Japan and Vietnam was \$12.24 billion in 2007, with a slight surplus of less than one million dollars in Japan's favor, according to GVN figures. Japan is Vietnam's second largest investor, with \$16.7 billion in licensed (registered) investment since 1988, of which \$7.1 billion was licensed just in the first six months of 2008. Actual (disbursed) cumulative investment for Japan from 1988 to June 2008 is \$4.73 billion, also according to GVN numbers.

AUSTRALIA AND NZ CLOSE TO AN ASEAN FTA  
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15. (SBU) Australian and Kiwi diplomats in Hanoi tell us that they are very close ("within a round or two") to finalizing a free trade agreement with ASEAN. The New Zealand Embassy's top economic officer told us that the parties have agreed already to do away with duties on over 90 percent of goods and may even include recognition of Vietnam as a market economy. Although Vietnam has not taken a leading role in negotiations, Australian negotiators tell us that they have been cooperative. "They haven't been too difficult," she

told us, "and in services they have been particularly good."

¶6. (U) Bilateral trade in 2007 between Australia and Vietnam was \$5.71 billion, according to the Australian Government, with Vietnam's exports (\$4.35 billion) making up the bulk of trade. New Zealand enjoys a surplus with Vietnam, with \$270 million in exports and \$135 million in imports from Vietnam in 2007, according to the New Zealand Government. Australia has one billion dollars in licensed investment in Vietnam since 1988 and New Zealand \$70.4 million.

#### EU SEEKS TO CAST OFF LAGGARDS IN ITS ASEAN FTA

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¶7. (SBU) Negotiations between the EU and ASEAN have not moved much since they were launched in May 2007. The EU Trade Counselor in Hanoi tells us that negotiations have been hampered by lack of leadership among the ASEAN countries and a general unwillingness among its members to sidestep the laggards. He says that the EU is now proposing splitting off some of the most forward-leaning countries into working groups to see whether the talks can advance more rapidly. Singapore, Brunei and Malaysia have made the short list, he added, but Vietnam (which would be welcome into the group) has yet to put its name forward.

¶8. (U) Two-way trade between the EU and Vietnam in 2007 was \$12.7 billion. EU exports were \$3.3 billion while Vietnamese exports to the EU were \$9.4 billion, according to the GVN. Holland and France are the largest EU investors in Vietnam, with \$2.6 and \$2.31 billion in licensed investment, respectively.

#### CANADA AND VIETNAM INVESTMENT AGREEMENT

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¶9. (SBU) Canada and Vietnam held the inaugural round of their Foreign Investment Promotion and Protection Agreement (FIPA) negotiations in late February, 2008 in Hanoi. The Vietnamese side (which is the same as the one that will conduct Bilateral Investment Treaty (BIT) negotiations with the United States) has told us that the FIPA should not be hard. "It has very low commitments, it's not at all like your BIT," one of Vietnam's leading negotiators told us, with a chuckle. Despite this, the Vietnamese were supposed to go to Canada for the second round last June, but unexpectedly cancelled, according to our Canadian counterparts in Hanoi.

¶10. (U) Two way trade between Canada and Vietnam in 2007 was \$826 million, according to the GVN, with Vietnam's exports amounting to \$539 million and Canada's exports to Vietnam \$287 million. In 2008, Canada has become one of Vietnam's leading investors on the basis of a single real estate development licensed for over \$4.23 billion, bringing Canada's cumulative registered investment total to \$4.72 billion.

#### P4 AND VIETNAM

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¶11. (SBU) A former Ministry of Trade and Investment (MOIT) official in charge of APEC told us earlier this year that Singapore had approached Vietnam to see whether it would be interested in joining talks on investment and financial services involving the United States and Chile, New Zealand and Brunei, the other P4 countries. According to the MOIT official, Vietnam could not immediately commit. "We have so much on our plates at the moment," she said. Nonetheless, "It's a tempting offer," she admitted.

#### COMMENT

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¶12. (SBU) There is much talk in Hanoi that, a year after its entry into the WTO, Vietnam is suffering from "negotiation fatigue." Another factor that may affect Vietnam's interest in negotiations is the current focus on surmounting macroeconomic challenges. "There is definitely a climate of not doing anything more at all," an Australian trade negotiator told us, summing up a commonly-held

feeling among foreign diplomats here. This may explain, perhaps, why the Japanese are having such a hard time in closing, why the Chileans still do not have anyone to negotiate with, or why the EU may not be able to follow in the wake of the Australians and Kiwis. This does not mean that Vietnam will stand aloof, and indeed GVN officials stress they remain focused on implementing existing commitments well, which is clearly a good thing. In addition, a former GVN negotiator assures us that, EU-ASEAN gridlock notwithstanding, Vietnam would jump at the chance to go bilateral with the EU. In our assessment, what we are seeing is a Vietnam that has become more discriminating in assessing the value of deals; if the perceived benefit is sufficient, the GVN will engage.

MICHALAK